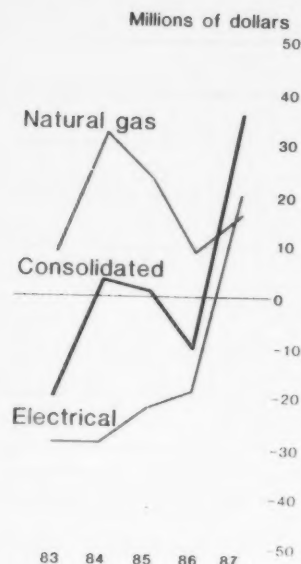


Sask**Power**
ANNUAL
REPORT
1 9 8 7

*"We achieved
encouraging results in
our financial restraint
program, while
providing effective
customer service."*

*George D. Hill, QC
President*

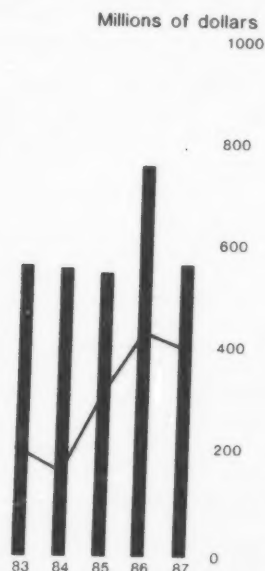
Income/Loss from operations



SaskPower's three-year recovery program implemented in 1986, and continuing control on capital and operating expenses, resulted in a dramatic turnaround in the electrical utility and consolidated earnings. This is the first profit earned by the electrical utility in eight years.

Cash flow and requirements

- Debt servicing
- Capital expenditures
- Cash from operations



Significantly higher earnings enabled SaskPower to meet its debt servicing requirements in 1987. One of the corporation's key long-term objectives is to generate sufficient cash internally to fund a major portion of its capital expenditures.

SaskPower and its business

SaskPower is a provincially owned Crown Corporation, established in 1949 to provide electricity and natural gas to the residents of Saskatchewan.

SaskPower's primary objective is to meet the natural gas and electrical energy needs of Saskatchewan residents in an economical, safe, reliable, efficient and environmentally responsible manner. This service is to be provided at rates that cover all costs and contribute to the short- and long-term financial health of the corporation.

SaskPower's board of directors is appointed by the provincial government and represents a broad spectrum of Saskatchewan residents.

1987 corporate highlights

Financial highlights in millions

	1987	1986
Revenue	\$859	\$847
Net income (loss)	36	(10)
Cash from operations		
available for debt servicing		
and capital expenditures ...	395	421
Capital expenditures	185	273

- * Electricity consumption increased by 4.3 per cent over the previous year, compared to the forecast of 2.6 per cent.
- * Consumption of natural gas was down 7.8 per cent, mainly due to unusually warm weather.

SaskPower

2025 Victoria Avenue
Regina, Saskatchewan
S4P 0S1

Letter of transmittal

Regina
March 1988

To His Honour
F.W. Johnson
Lieutenant Governor
of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 1987, including the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of the corporation, all in accordance with The Power Corporation Act.

I have the honour to be, Sir,
Your obedient servant,

Eric A. Berntson,
Minister Responsible
Saskatchewan Power Corporation



Message from the Chairman



Serving our customers efficiently remains SaskPower's primary objective. During 1987, we were able to meet that objective while exercising restraint to improve the financial condition of the corporation.

The corporation has maintained a high level of customer service in urban areas, and continued to bring improved electrical service and new natural gas service to farms and small communities. We believe that our rural customers deserve the same quality of service that urban customers have come to depend upon.

Our two major programs bringing significant benefits to rural areas are the Saskatchewan Natural Gas Distribution Program (SNGDP) and the Rural Underground Distribution (RUD) electrical program. SNGDP is in its fifth year of extending new natural gas service to rural customers. Through the RUD program we are replacing the aging overhead electric distribution system with more reliable underground electric distribution lines, as the system becomes overloaded.

As the energy demands of the province continue to grow, we must continue to examine and anticipate the electrical and natural gas requirements of our expanding markets.

To meet our anticipated energy deficiencies, SaskPower proposed the Shand site near Estevan as the most economical option for a new generating station.

Accordingly, developmental work continued during 1987 on the proposed 300-MW (megawatt) Shand generating station, which will provide electricity beginning in 1992. Construction is scheduled to begin in 1988, provided environmental approval is received early in the year. The Shand station will use the latest technology to economically meet federal emission-control standards.

An important change directly affecting our gas utility was the deregulation of the natural gas industry. Gas deregulation has meant more activity, not less, in our Gas System. We are confident that this growth will continue as Saskatchewan producers sell natural gas directly to Saskatchewan customers and export more and more gas to the eastern provinces and the United States.

In addition to the production and delivery of energy, SaskPower provides benefits to the people of Saskatchewan through various other programs.

One of these programs is the Saskatchewan Supplier Development Program, which is designed to search out and encourage local businesses to supply goods and services for SaskPower. The program allows the corporation to increase its direct and indirect contribution to the provincial economy.

In addition to improving the productivity of our staff, SaskPower is also placing more emphasis on contracting out those services which can be provided more efficiently and economically through the private sector. This policy, which supports the private sector, will also contribute to the health of the provincial economy.

Whether it is through direct or indirect benefits to our customers, we at SaskPower are keenly aware of the vital role we play in the province. Our responsibility is great, but it is one which our employees, past and present, have undertaken with dedication and pride.

On behalf of the Board of Directors, I thank the employees of SaskPower for their hard work and their dedication in serving our customers, the people of Saskatchewan.

Donald Stankov, CA
Chairman of the
Board of Directors

Message from the President

In my first year as president and chief executive officer of SaskPower I emphasized one critical theme - financial restraint while maintaining high quality service to our customers. Accordingly, we initiated a number of new financial restraint measures and continued other programs that have been showing success in restoring financial health to the corporation.

Throughout the year, we stressed the importance of improving our bottom line and the importance of teamwork among our employees in achieving this objective. Our employees at all levels have supported this goal.

Perhaps the most significant change was the reorganization and downsizing throughout SaskPower, starting at the executive level. These were difficult but necessary measures. We eliminated levels of management and thereby produced a corporation where managers are closer to the action. Our downsizing meant that current staff are busier and more productive in order to provide our usual high level of service to the public.

Early in the year, I met with all senior managers of the corporation. At that time, I emphasized that all employees must constantly ask two questions whenever the spending of even \$10 is involved: "Is it necessary to spend this money?" and, if the answer is yes, "Can it be deferred?" With these questions in mind, we reviewed our 1987 capital and operating budgets, and trimmed them significantly. The 1988 budgets were also developed with these criteria in mind, and we expect to see better results in 1988 and beyond as employees become more accustomed to and adept at the use of this kind of analysis.

While we have reduced our expenditures and our staff levels, we continue to believe that the people of Saskatchewan are entitled to receive the high quality service they have come to expect from SaskPower. They deserve nothing less.

Our financial picture, while improving, is still a major concern. We set the stage for this improvement in 1986, with our three-year financial recovery program. After a \$10 million loss last year, we recorded a profit in 1987 which was \$42 million better than had been initially budgeted. This improvement occurred despite the warmest year on record,

which reduced the revenues of the gas and electrical systems. Our restraint program and the strengthened Canadian dollar were the main contributors to the financial turnaround. Our successful bond issue also played a significant part by reducing our borrowing costs.

The executive is confident that our financial condition will continue to improve as long as our employees work together towards the same goal of continuing improvement; and as long as the key forces that contribute to our profitability, including weather and adequate river flows, are normal.

In December, SaskPower announced new rates for both electricity and natural gas which took effect January 1, 1988. The electrical rate increase is the last phase of a three-year financial recovery plan for the electrical utility. Future gas and electrical rate increases will be at or below the rate of inflation.

SaskPower's wholly owned subsidiary, North-Sask Electric, was consolidated into the corporation on December 31. The area served by North-Sask now functions as a region of SaskPower. We will continue to expand our electrical grid to provide economical and reliable power for our northern customers.

I am grateful to the Chairman and the Board of Directors for their leadership and guidance during the year. I thank all SaskPower employees for their dedication, hard work and support of our corporate goals.

George D. Hill, QC
President and Chief
Executive Officer



Financial review

SaskPower achieved a significant financial improvement in 1987 as a result of a turnaround in the electrical utility. Cost reductions accompanied by electrical rate increases were mainly responsible for a consolidated net income of \$36 million compared to a net loss of \$10 million recorded in 1986. Consolidated revenues totalled \$859 million, a slight increase of 1.4 per cent over 1986. Higher electrical revenues were offset by lower gas revenues due to exceptionally warm weather.

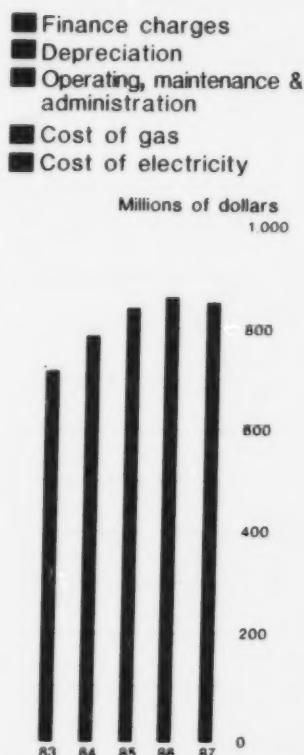
Operating, maintenance and administration expenses totalling \$218 million were 4.4 per cent lower than the previous year, mainly due to the downsizing program and contin-

Consolidated revenues



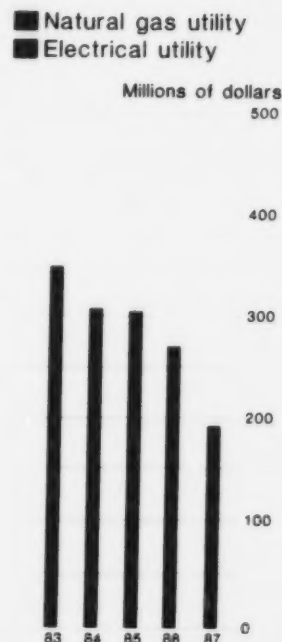
Electrical revenues continued to grow as a result of rate increases and high industrial and commercial demand. However, this growth was offset by reductions in gas revenues mainly due to lower consumption.

Consolidated expenses



Lower consolidated expenses in 1987 reflect the continued control of operating, maintenance and administration expenses; the impact of deregulated gas pricing; and reduced gas purchases due to warmer weather.

Capital expenditures



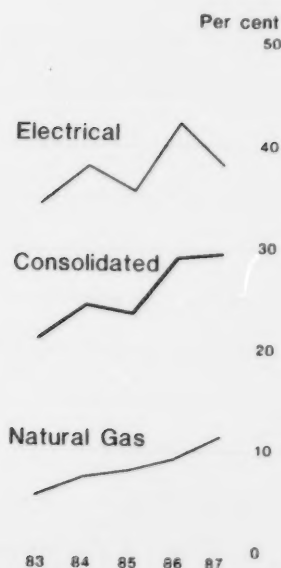
The downward trend in capital expenditures during the last five years reflects the completion of the Nipawin hydroelectric station in 1986 and the corporation's efforts to restrict capital spending.

ued control of discretionary spending. Reduced borrowings, lower interest rates, and a stronger Canadian dollar held finance charges to about the same level as 1986.

Capital expenditures for the year totalled \$185 million, the lowest level since 1981. This reflects the corporation's efforts to defer capital spending, and the completion of the Nipawin Hydroelectric Station in 1986.

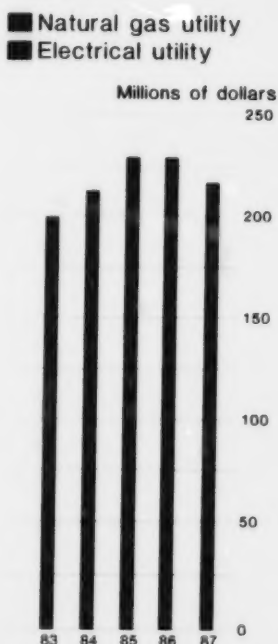
Lower debt redemptions and significantly higher earnings in 1987 enabled SaskPower to meet its debt servicing requirements using cash from operations. As a result, debt financing was held to \$204 million compared to \$317 million in 1986.

Finance charges as a per cent of revenue



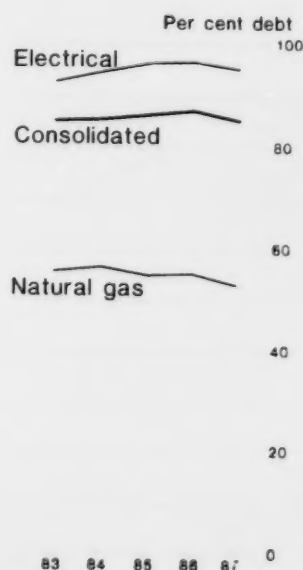
The reduction in finance charges as a per cent of revenue for the electrical utility in 1987 reflects higher revenues and a slowdown in the growth of finance charges.

Operating, maintenance and administration expenses



In the past three years, operating, maintenance and administration expenses have been contained due to continuing cost control. The decline in 1987 reflects the corporate downsizing program implemented during the year.

Debt-to-equity ratios



Significantly improved earnings in the electrical utility and a slowdown in the growth of debt in 1987 resulted in a gradual reduction of debt as a per cent of capital.

Serving our customers

SaskPower is constantly working to ensure that our customers have a reliable supply of electricity and natural gas. Our performance statistics continue to improve, with fewer and shorter service interruptions. Compared to 1983, the number of interruptions in 1987 has been reduced by 18 per cent, and the outage duration has been reduced by 21 per cent.

The Customer Services department was streamlined during the year. Four zones and 10 regions have been reorganized into six regions with fewer levels of management.

To improve the efficiency of the customer billing system, SaskPower now uses the combined technologies of computer and laser printing. We also reduced the late-payment charge on past-due accounts to 1.17 per cent per month, down from 1.5 per cent per month.

The Saskatchewan Natural Gas Distribution Program continued during 1987, providing natural gas to 3 160 customers in rural Saskatchewan. We installed 5 066 km of plastic pipe and 142 km of steel pipeline during the year. Since the program started in 1982, SaskPower has provided economical and convenient natural gas service to 27 041 new customers on farms and in small communities.

SaskPower has begun a strong marketing program to demonstrate the wise and efficient use of natural gas as it becomes available to more rural and urban customers each year. In 1987, we prepared a display showing a variety of natural gas appliances including stoves and clothes dryers.

A SaskPower crew raises energized power lines north of Regina to allow safe passage of a large tank to the oil upgrader site, currently under construction.



The Rural Underground Distribution program continued in 1987 with the installation of 2 208 km of underground cable, serving 1 257 customers. This is the third year of a 20-year rebuilding program, which will eventually replace all overhead single-wire rural distribution lines. It will reduce maintenance costs, improve service reliability, enhance farm safety and make farming operations more convenient. Since the program started, 4 509 km of underground cable has been installed, serving 2 511 rural customers.

Customer meters in service

	On December 31	
	1987	1986
Gas		
Residential.....	231 948	227 824
Farm	14 533	12 318
Commercial.....	32 757	31 808
Industrial	120	124
Intersystem & other ...	8	10
Total.....	<u>279 366</u>	<u>272 084</u>
Electrical		
Residential.....	277 046	273 736
Farm	71 427	71 691
Commercial.....	55 941	55 258
Industrial	30	30
Street lights	930	930
Intersystem & other ...	13	15
Total.....	<u>405 387</u>	<u>401 660</u>

Bud Crowhurst's farm, west of Regina, is one of thousands in the province which has the benefits of underground electrical and natural gas service.



Five-year operating summary

	Natural gas operations					Electrical operations				
	1987	1986	1985	1984	1983	1987	1986	1985	1984	1983
Sales (10 ⁶ m ³) (kW·h x 10 ⁶).....	2 491	2 703	3 072	3 020	2 823	10 812	10 366	10 172	9 861	9 096
Growth over prior year	-7.84	-12.01	1.72	6.98	-6.27	4.30	1.91	3.15	8.41	7.42
Average annual usage per residential customer (m ³) (kW·h)	3 175	3 623	4 006	3 954	3 741	7 540	7 854	7 642	7 558	7 377
Average urban residential monthly billing (\$)	39	43	49	45	42	37	37	34	30	25
Maximum daily volume (10 ³ m ³)/ Seasonal gross system peak load (kW·h x 10 ⁶).....	15 350	16 252	19 103	17 385	20 000	2 318	2 178	2 198	2 206	2 120
Degree days - Regina	4 602	5 204	6 018	5 550	5 732					
Customers at year end*.....	279 366	272 084	261 191	253 438	244 441	405 387	401 660	386 483	385 867	380 451
Pipelines/power lines (km)†	55 068	49 401	39 023	29 876	21 799	139 821	138 845	136 374	135 905	134 938

* Customer figures for 1985 through 1987 include the number of customer meters in service on December 31. The 1983 and 1984 figures show the number of customers billed during the month of December. These prior-year figures include adjustments for customers who received bills on a quarterly basis.

† 1986 and 1987 power line figures include North-Sask Electric Ltd. facilities.

Liquid steel from an electric arc furnace is poured into a ladle at IPSCO, Regina. IPSCO is one of SaskPower's largest industrial customers.



Gas System

In 1987, deregulation of natural gas brought a whole new way of operating to SaskPower's Gas System. Customers can now purchase natural gas directly from producers, while SaskPower continues its important role of transporting natural gas within Saskatchewan.

Deregulation also opened up the export market. As a result, Saskatchewan producers now sell natural gas to eastern Canada and the United States, and SaskPower provides the transportation within the province.

Gas deregulation began in 1985 with an agreement between the federal government and the gas-producing provinces — Saskatchewan, Alberta and British Columbia. The agreement to change the tightly regulated system for selling natural gas took effect in November 1986. It paved the way for buyers and sellers to negotiate prices, and gave producers access to more market opportunities.

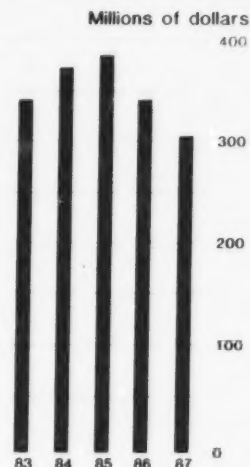
In Saskatchewan, deregulation was introduced in two phases. Phase 1, announced in February 1987, allowed SaskPower and Saskatchewan sellers of natural gas to negotiate their own prices. Previously, the provincial department of Energy and Mines had set these prices.

Early in 1987, SaskPower negotiated new prices for gas purchased, saving approximately \$26 million in 1987. We passed on these savings to customers in the form of rate reductions averaging 5.4 per cent, retroactive to January 1, 1987.

Phase 2 was announced in October 1987. It allows consumers to buy directly from the companies that develop and operate gas wells. At year end, 15 gas consumers in the province contracted directly with producers for the majority of their natural gas needs.

Natural gas utility revenues

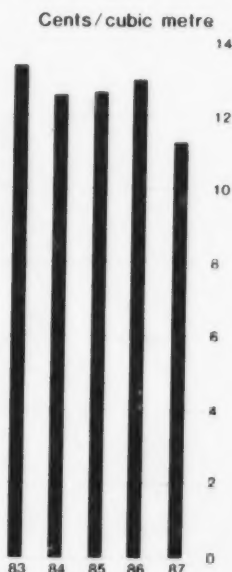
- Residential & farm
- Commercial
- Industrial
- Other



The decline in gas revenues in the last two years is due to lower consumption and rate reductions.

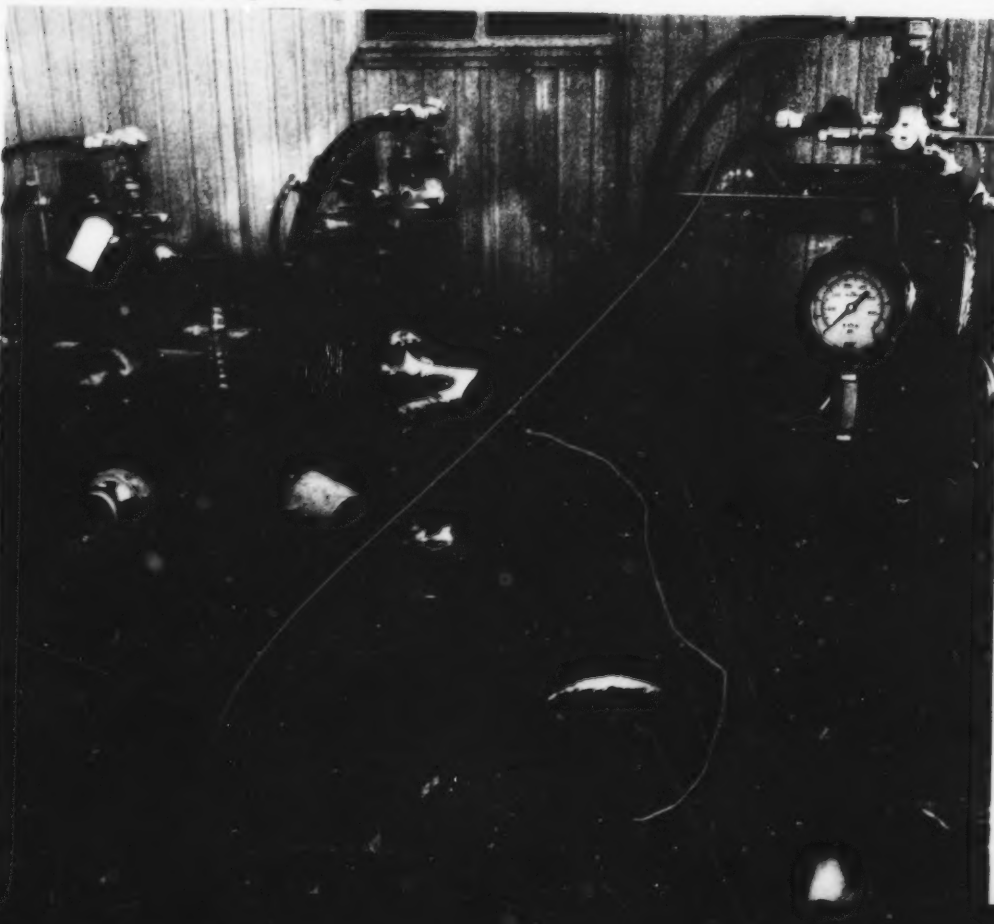
Natural gas unit cost in constant 1987 dollars

- Finance charges
- Depreciation
- Operating, maintenance and administration
- Cost of gas



The reduction in the unit cost of gas in 1987 reflects the impact of price deregulation.

Welder Dale Garrioch grinds a weld on the intake pipe for the Piapot compressor.



Transportation for these customers and for export will be a major portion of the Gas System's business. In 1988, we expect to transport more than 55 billion cubic feet (bcf) of gas for export and direct-sale customers. We will also carry approximately 80 bcf for customers who purchase their natural gas from SaskPower.

1 billion cubic feet (bcf) = 28.174 million cubic metres (m³)

Gas supply sources			
(Millions of cubic metres)			%
Sources	1987	1986	Increase (Decrease)
Alberta			
TCPL*	483	619	
Field suppliers	284	347	
MIPL(C)L†	324	351	
Less Alberta sales	(182)	(179)	
Total Alberta production delivered to Saskatchewan	909	1 138	(20.1)
Saskatchewan			
Field suppliers	1 448	1 589	
SaskPower production	103	97	
Total Saskatchewan production	1 551	1 686	(8.0)
From (to) storage	(68)	(216)	
Total Saskatchewan requirements	2 392	2 608	(8.3)
Less internal use and other	(83)	(84)	
Alberta sales	182	179	1.7
Total sales	2 491	2 703	(7.8)

* TransCanada PipeLines Limited

† Many Islands Pipe Lines (Canada) Limited

This new pipeline near Fox Valley in southwest Saskatchewan transports natural gas from new wells and delivers it to the TransCanada PipeLine system for export.



Electrical System

Athabasca transmission line

Construction is now under way on SaskPower's longest transmission line. The 355-km Athabasca Line from the three small hydro stations northwest of Uranium City to Rabbit Lake, near Wollaston Lake, is scheduled for completion in the fall of 1988. (See the map on page 17.) SaskPower acquired the three hydro stations from Eldorado Nuclear Limited in 1986.

A 14.4-kV (kilovolt) line from the Charlot Hydro station was completed June 27, providing the community of Camsell Portage with hydro power. Previously, a diesel generator provided Camsell Portage with more expensive electricity.

In 1988, the communities of Fond-du-Lac, Stony Rapids, Black Lake and Wollaston Post will also be connected to hydro power by distribution lines off the Athabasca transmission line. The diesel plants that currently serve the four communities will then be removed.

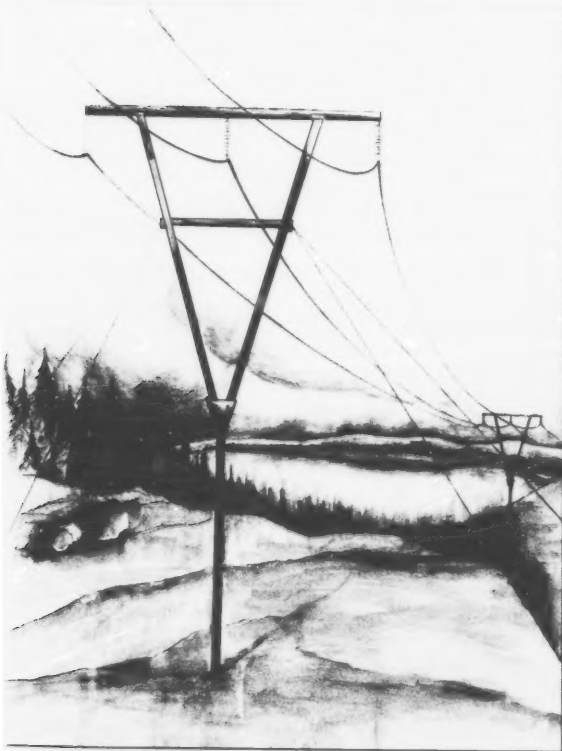
Changing from diesel to hydro power results in reduced costs to SaskPower and therefore reduced rates to our customers. The total cost for distribution lines to serve the five northern communities is \$5.8 million.

Constructing a transmission line in the northern quarter of the province has its own special challenges including weather, isolation and rugged terrain.

During 1987, contractors cleared brush, surveyed the route, and installed foundations and anchors for the towers. There will be approximately three towers per kilometre along the route.

We will use towers made of Saskatchewan tubular steel, fabricated by Saskatchewan firms. In the spring of 1988, a contractor will use a helicopter to set the towers along 125 km of the route on the north shore of Lake Athabasca, where conventional construction methods are not possible.

The Charlot Hydro station now provides economical electrical energy to the residents of Camsell Portage and Uranium City. When the Athabasca transmission line is completed, hydro electricity from Charlot, Wellington and Waterloo will serve many northern residents as well as the Rabbit Lake uranium mine.



There will be more than 1 000 Y-shaped towers in the Athabasca transmission line. They range in height from 16.8 m to more than 22 m. Each tower will be set into a concrete foundation and supported by four guy-wires anchored into the rock or soil.



Squaw Rapids repair work

SaskPower completed major repairs to the wicket gates for two units at the Squaw Rapids Hydroelectric Station between May and mid-November. The repairs ensure continuing reliable service from the 288-MW hydro station.

The Squaw Rapids repair project, which cost less than \$500 000, was significant for several reasons. It was the first time SaskPower had attempted a major hydro turbine repair without totally disassembling the generator and turbine. Special equipment was designed so the wicket gates could be removed without disassembling the unit. This innovative approach saved the corporation \$1.5 million in maintenance costs.

Electrical rate increase approved

Public hearings on electrical rates were held in January 1987. After these hearings, the Saskatchewan Public Utilities Review Commission (PURC) approved a rate increase averaging 7.5 per cent, effective February 1. This increase was the second of three annual increases, designed to improve the financial health of the corporation. The increases were announced early in 1986.

Hugh Perkins (l), Ray Jeanson and Eugene Hlady remove the first wicket gate at Squaw Rapids, our largest hydro station. The one-tonne wicket gates control the flow of water to the turbines.



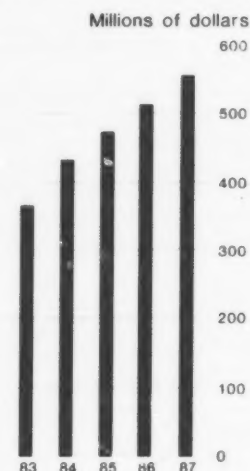
1987 generation statistics

	1987 rated generating capacity (gross kilowatts)	1987 gross generation (kW·h x 10 ³)	1987 gross generation % increase (decrease) from 1986
Hydro			
Squaw Rapids.....	288 000	831 350	(24.8)
Nipawin.....	255 000	916 062	(17.4)
Coteau Creek.....	186 000	627 156	(19.6)
Island Falls.....	95 000	826 544	5.1
Total hydro.....	824 000	3 201 112	(15.3)
Steam			
Boundary Dam.....	875 000	5 030 720	14.4
Estevan.....	65 000	124 564	69.6
Poplar River.....	592 000	4 364 500	10.0
Queen Elizabeth.....	232 000	74 350	242.9
Total steam.....	1 764 000	9 594 134	13.4
Gas turbine			
Landis.....	60 000	12 760	144.7
Meadow Lake.....	46 000	12 232	843.1
Success.....	30 000	1 794	1 712.1
Total gas turbine.....	136 000	26 786	305.2
Total generation		12 822 032	4.7
Less station service.....		742 860	4.9
Net generated.....		12 079 172	4.7
Net imported.....		103 193	55.2
Net generation plus import.....		12 182 365	5.0
Total capacity (provincial grid).....	2 724 000		
Northern isolated systems			
Athabasca.....	23 000	5 562	176.6
Less station service.....		1 566	161.5
Northern diesel plants.....	6 100	7 027	(7.7)
Northern purchases.....		6 156	(22.5)
Total Northern loads.....		17 179	1.2
Total capacity	2 753 100		
Total delivered to system		12 199 544	5.0
Less losses.....		1 387 144	10.3
Energy sold		10 812 400	4.3
Annual peak load (gross).....	2 195 000*	(December 14)	
Annual peak load (net).....	2 077 000*		

* Peak loads for provincial grid only, does not include Northern isolated loads.

Electrical utility revenues

- Residential & farm
- Commercial
- Industrial
- Other



Electrical revenues grew as a result of rate increases and higher industrial and commercial demand in 1987.

Electricity unit cost in constant 1987 dollars

- Finance charges
- Depreciation
- Operating, maintenance and administration
- Cost of fuel



The lower unit cost of electricity was mainly due to reductions in operating expenses and finance charges.

General

Human Resources

During 1987, 242 employees took advantage of a company-wide early retirement program. The program provided SaskPower an opportunity to improve efficiency by consolidating responsibilities. At year end, the corporation had 2 881 employees, compared to 3 100 at year end 1986. At the end of 1982, there were 3 452 on SaskPower's payroll.

SaskPower and the International Brotherhood of Electrical Workers (IBEW) Local 2067, signed a two-year collective agreement on July 28. The union supported SaskPower's objective of financial restraint by agreeing to a zero wage increase for the term of the contract.

Management employees also contributed to the financial restraint program by accepting no salary increases.

Negotiations with the Energy and Chemical Workers Union (ECW) Local 649 continued through the year. The ECW contract expired on January 31, 1987.

Materials management

In January we implemented a new Materials Management Information System (MMIS), which is used for purchasing goods or services, for requesting materials from inventory, and for paying all bills.

MMIS is expected to save SaskPower more than \$500 000 a year. It helps minimize the investment in inventory by providing up-to-date information on inventories and planning purchases to coincide with job schedules. It also reduces paperwork and time and effort by processing and transmitting information electronically. MMIS is making it possible to decentralize the purchasing and receiving functions.

Vi Schmidt, a clerk steno in Purchasing, uses the Materials Management Information System to review the status of a purchase order.



Supporting Saskatchewan business

SaskPower established its Saskatchewan Supplier Development program in 1983. As a result of the program, we now buy more than 100 kinds of products from Saskatchewan manufacturers, rather than from outside the province. These products range from coveralls to power line and gas line hardware.

In 1987, SaskPower purchased 84 per cent of its goods and services from Saskatchewan producers.

In addition to supporting Saskatchewan manufacturers, SaskPower supports other local businesses. For example, since the program started, we have purchased all our vehicles through local dealerships.

There are many examples of the contributions the program makes to the local economy. Forty-two people are employed in a Saskatoon plant which makes plastic pipe for

the Saskatchewan Natural Gas Distribution Program as well as for other customers across western Canada.

A new factory, now under construction in Saskatoon, has created many jobs in the construction industry. When it is completed, it will employ skilled workers to build turbine components for the Shand Project.

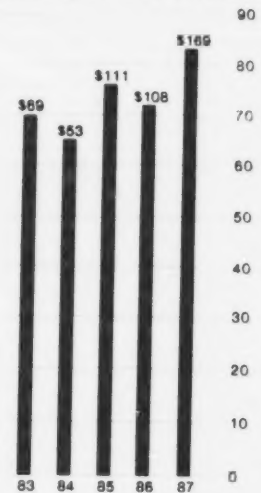
In Moose Jaw, 23 people manufacture cable for the Rural Underground Distribution program. As a direct result of that factory, another firm has been established in Moose Jaw to produce wooden reels for the cable.

In addition, many smaller plants throughout the province have been upgraded, expanded or diversified to provide products for the Saskatchewan Supplier Development program. As a result, jobs have been created, industries have been stabilized, and the provincial economy has benefited.

An employee in a Humboldt manufacturing plant welds the base on a street-light standard, manufactured for SaskPower. In 1987 the corporation purchased \$169 million in goods and services from Saskatchewan suppliers.

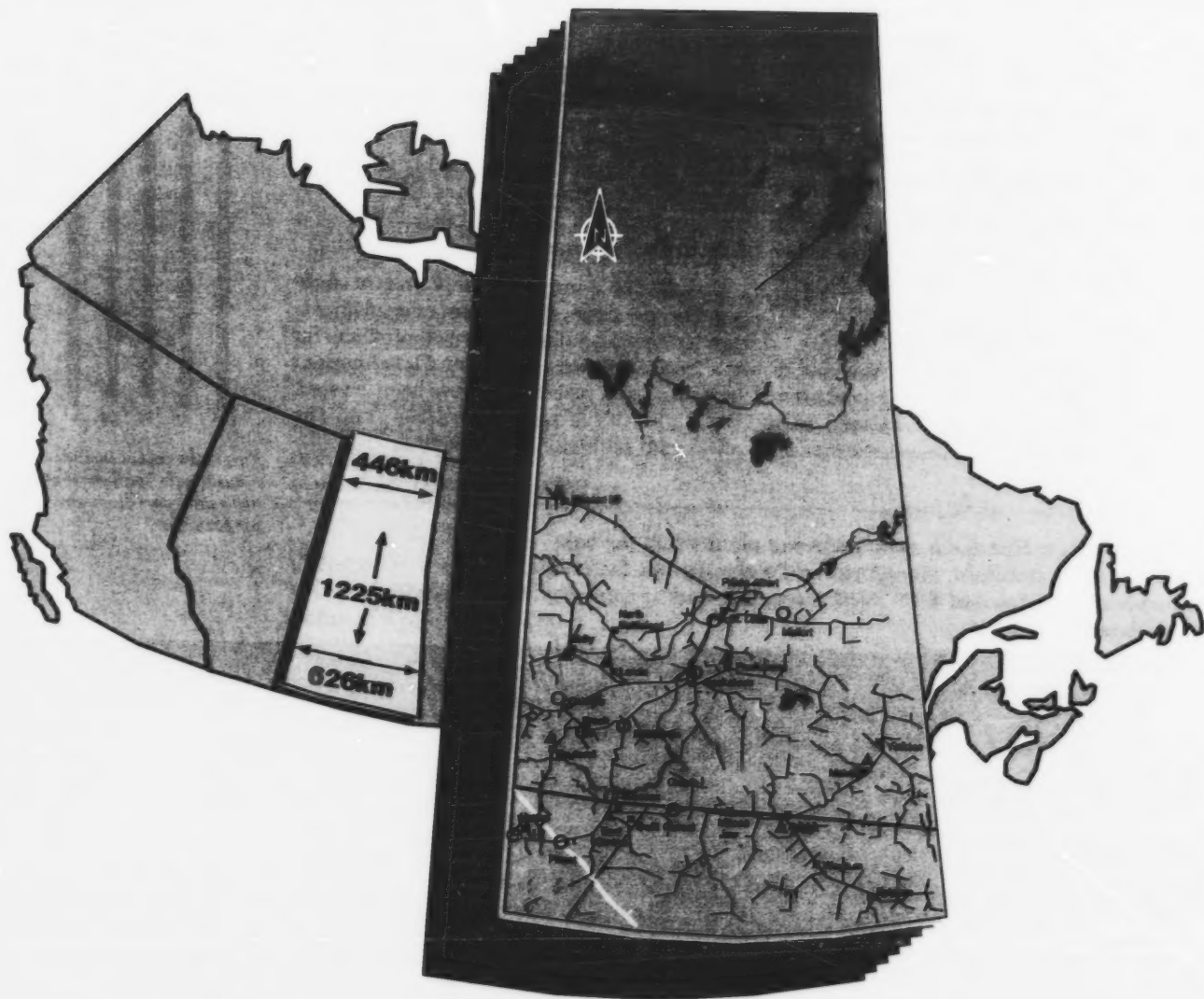
Saskatchewan Supplier Development Program

Percentage of total purchases



Purchases do not include coal or natural gas. Total value of Saskatchewan purchases are shown for each year.

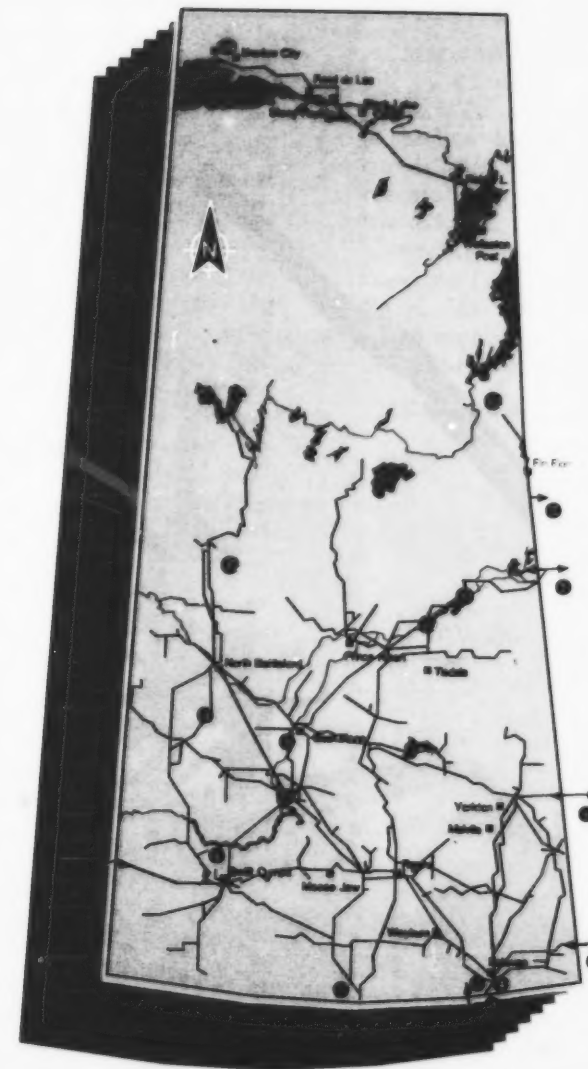
Energy in Saskatchewan



Natural gas system

- Compressor station
- ▲ Compressor station and storage facility

- High-pressure transmission lines
- TransCanada PipeLines Limited
- Consolidated Pipeline Co.
- Foothills Pipeline Limited



Electrical power system

- | | | |
|------------------------------|--------------------------------------|---------------------------------------|
| 1 Poplar River Power Station | 6 Success Power Station | 11 Squaw Rapids Hydroelectric Station |
| 2 Boundary Dam Power Station | 7 Coteau Creek Hydroelectric Station | 12 Island Falls Hydroelectric Station |
| 3 Basin Electric tie-line | 8 Queen Elizabeth Power Station | 13 Meadow Lake Power Station |
| 4 Estevan Power Station | 9 Landis Power Station | 14 Athabasca Hydroelectric System |
| 5 Manitoba Hydro tie-lines | 10 Nipawin Hydroelectric Station | 15 Alberta tie-line |
- Transmission lines
 - Transmission lines (project in progress)

A contractor's crew lowers the chimney into place on the second compressor building at Piapot. The new compressor station was constructed to handle the increased flow of gas which occurred after the industry was deregulated.



Report of Management

Management is responsible for the integrity of the financial data reported by the corporation and its subsidiaries. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada which are consistently applied, with any exceptions specifically described in the notes to the consolidated financial statements. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgment in order that such statements reflect fairly the consolidated financial position, results of operations and changes in cash position.

In order to gather and control financial data, the corporation has established accounting and reporting systems supported by internal controls and an internal audit program. In establishing systems of internal control, management weighs the cost of such systems against the benefits that it believes can be derived. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

Clarkson Gordon, Chartered Accountants, have examined Saskatchewan Power Corporation's consolidated statements of financial position as at December

31, 1987 and the related consolidated statements of income and retained earnings and changes in cash position for the year then ended. Their responsibility is to express an opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

In ensuring that management fulfills its responsibility for financial reporting and internal control, the Board of Directors is assisted by the Audit Committee of the Board. At regular meetings, the committee discusses audit and financial reporting matters with representatives of management, the internal auditors and the external auditors. The Audit Committee has reviewed the consolidated financial statements with Clarkson Gordon and has submitted its report to the Board of Directors. The Board of Directors has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management,

G. D. Hill, QC
President

H. Jim, CA, P.Eng.
Vice-President, Finance

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statements of financial position of Saskatchewan Power Corporation as at December 31, 1987, and the consolidated statements of income and retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Saskatchewan Power Corporation as at December 31, 1987 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Regina, Saskatchewan
February 12, 1988

Chartered Accountants

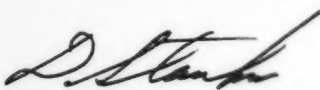
Consolidated statements of financial position

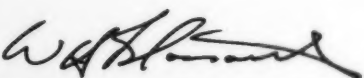
as at December 31

(in millions)

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Assets						
Property, plant and equipment						
Property, plant and equipment (Note 2)	\$3 358	\$3 214	\$2 541	\$2 449	\$817	\$765
Less: Accumulated depreciation and depletion	<u>883</u>	<u>792</u>	<u>635</u>	<u>562</u>	<u>248</u>	<u>230</u>
	2 475	2 422	1 906	1 887	569	535
Construction in progress	<u>87</u>	<u>56</u>	<u>78</u>	<u>48</u>	<u>9</u>	<u>8</u>
	<u>2 562</u>	<u>2 478</u>	<u>1 984</u>	<u>1 935</u>	<u>578</u>	<u>543</u>
Current assets						
Cash and short-term investments	40	(1)	(5)	(6)	45	5
Accounts receivable and unbilled revenue	122	127	72	75	50	52
Inventories	<u>84</u>	<u>82</u>	<u>45</u>	<u>46</u>	<u>39</u>	<u>36</u>
	<u>246</u>	<u>208</u>	<u>112</u>	<u>115</u>	<u>134</u>	<u>93</u>
Unamortized costs of long-term debt						
Foreign exchange	40	85	32	72	8	13
Discount and issue expense	<u>28</u>	<u>30</u>	<u>23</u>	<u>25</u>	<u>5</u>	<u>5</u>
	<u>68</u>	<u>115</u>	<u>55</u>	<u>97</u>	<u>13</u>	<u>18</u>
Other assets and deferred costs						
	<u>63</u>	<u>55</u>	<u>15</u>	<u>4</u>	<u>48</u>	<u>51</u>
	<u>\$2 939</u>	<u>\$2 856</u>	<u>\$2 166</u>	<u>\$2 151</u>	<u>\$773</u>	<u>\$705</u>

Approved on behalf of the Board:


 _____, Director


 _____, Director

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Liabilities and equity						
Long-term debt						
Advances from the Province of						
Saskatchewan (Note 3)	\$2 259	\$2 256	\$1 898	\$1 902	\$361	\$354
Saskatchewan Power Corporation Savings						
Bonds (Note 4)	278	223	214	167	64	56
Other	51	51	51	51	—	—
	<u>2 588</u>	<u>2 530</u>	<u>2 163</u>	<u>2 120</u>	<u>425</u>	<u>410</u>
Less equity in sinking funds (Note 3)	300	272	234	211	66	61
Long-term debt net of sinking funds	<u>2 288</u>	<u>2 258</u>	<u>1 929</u>	<u>1 909</u>	<u>359</u>	<u>349</u>
Less amounts due within one year (Note 3)	144	96	120	77	24	19
	<u>2 144</u>	<u>2 162</u>	<u>1 809</u>	<u>1 832</u>	<u>335</u>	<u>330</u>
Current liabilities						
Accounts payable and accrued liabilities	180	181	93	126	87	55
Long-term debt due within one year	144	96	120	77	24	19
	<u>324</u>	<u>277</u>	<u>213</u>	<u>203</u>	<u>111</u>	<u>74</u>
Other liabilities and deferred income						
	<u>78</u>	<u>70</u>	<u>61</u>	<u>56</u>	<u>17</u>	<u>14</u>
Equity						
Retained earnings (deficit)	249	213	(15)	(35)	264	248
Contributions in aid of construction	144	134	98	95	46	39
	<u>393</u>	<u>347</u>	<u>83</u>	<u>60</u>	<u>310</u>	<u>287</u>
	<u>\$2 939</u>	<u>\$2 856</u>	<u>\$2 166</u>	<u>\$2 151</u>	<u>\$773</u>	<u>\$705</u>

See accompanying notes

Consolidated statements of income and retained earnings

For the years ended December 31

(in millions)

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Revenue						
Sales to customers	\$859	\$847	\$561	\$508	\$298	\$339
Inter-utility sales eliminated on consolidation	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>	<u>7</u>	<u>5</u>
	<u>859</u>	<u>847</u>	<u>562</u>	<u>509</u>	<u>305</u>	<u>344</u>
Costs and expenses						
Cost of electricity and gas	253	289	92	83	161	206
Inter-utility costs eliminated on consolidation	<u>—</u>	<u>—</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>
Operating, maintenance and administration	218	228	150	158	68	70
Depreciation and depletion	<u>101</u>	<u>95</u>	<u>79</u>	<u>70</u>	<u>22</u>	<u>25</u>
	<u>572</u>	<u>612</u>	<u>326</u>	<u>314</u>	<u>254</u>	<u>304</u>
Income before finance charges	<u>287</u>	<u>235</u>	<u>236</u>	<u>195</u>	<u>51</u>	<u>40</u>
Finance charges (Note 5)	<u>251</u>	<u>245</u>	<u>216</u>	<u>214</u>	<u>35</u>	<u>31</u>
Net income (loss)	<u>36</u>	<u>(10)</u>	<u>20</u>	<u>(19)</u>	<u>16</u>	<u>9</u>
Retained earnings (deficit)						
Beginning of year	<u>213</u>	<u>223</u>	<u>(35)</u>	<u>(16)</u>	<u>248</u>	<u>239</u>
End of year	<u>\$249</u>	<u>\$213</u>	<u>\$(15)</u>	<u>\$(35)</u>	<u>\$264</u>	<u>\$248</u>

See accompanying notes

Consolidated statements of changes in cash position

For the years ended December 31

(in millions)

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Cash from operations available for debt servicing and capital expenditures (Note 6)	<u>\$395</u>	<u>\$421</u>	<u>\$291</u>	<u>\$348</u>	<u>\$104</u>	<u>\$73</u>
Cash used for debt servicing						
Gross interest payments	288	289	245	248	43	41
Principal repayments	86	200	69	173	17	27
Sinking fund installments	13	14	11	11	2	3
	<u>387</u>	<u>503</u>	<u>325</u>	<u>432</u>	<u>62</u>	<u>71</u>
Net cash available (deficiency) for capital expenditures	<u>8</u>	<u>(82)</u>	<u>(34)</u>	<u>(84)</u>	<u>42</u>	<u>2</u>
Cash used for capital expenditures						
Additions to property, plant and equipment	185	273	128	189	57	84
Less interest capitalized	(4)	(10)	(3)	(8)	(1)	(2)
Other	14	17	12	2	2	15
	<u>195</u>	<u>280</u>	<u>137</u>	<u>183</u>	<u>58</u>	<u>97</u>
Net cash deficiency before financing	<u>(187)</u>	<u>(362)</u>	<u>(171)</u>	<u>(267)</u>	<u>(16)</u>	<u>(95)</u>
Cash from financing and other sources						
Long-term debt	204	317	162	255	42	62
Other	24	26	10	12	14	14
	<u>228</u>	<u>343</u>	<u>172</u>	<u>267</u>	<u>56</u>	<u>76</u>
Increase (decrease) in cash	41	(19)	1	—	40	(19)
Cash position (indebtedness), beginning of year	<u>(1)</u>	<u>18</u>	<u>(6)</u>	<u>(6)</u>	<u>5</u>	<u>24</u>
Cash position (indebtedness), end of year	<u>\$ 40</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (6)</u>	<u>\$ 45</u>	<u>\$ 5</u>
Cash position (indebtedness) at end of year consists of:						
Cash and short-term deposits	\$ 96	\$ 79	\$ (2)	\$ —	\$ 98	\$ 79
Bank indebtedness	(56)	(80)	(3)	(6)	(53)	(74)
	<u>\$ 40</u>	<u>\$ (1)</u>	<u>\$ (5)</u>	<u>\$ (6)</u>	<u>\$ 45</u>	<u>\$ 5</u>

See accompanying notes

Notes to consolidated financial statements

December 31, 1987

The Corporation was established pursuant to The Power Corporation Act, passed on April 8, 1950. In accordance with the provisions of this Act, the Corporation's main functions are the generation, purchase, transmission, distribution and sale of electrical energy and the production, purchase, transmission, distribution and sale of natural gas.

1. Accounting policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles and conform in all material respects with International Accounting Standards, except that there is no provision for income taxes as they are not exigible on earnings of Crown Corporations. The following policies are considered to be significant:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, North-Sask Electric Ltd., Many Islands Pipe Lines Limited and Many Islands Pipe Lines (Canada) Limited. All intercompany accounts and transactions have been eliminated on consolidation.

Corporate assets, liabilities and expenses are allocated to the electrical and gas utilities on bases which are reviewed and updated on an annual basis.

(b) Joint Ventures

Substantially all gas development and production activities are conducted with joint venture partners and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost and include direct material, interest, labor and overhead costs.

The costs of renewals and enhancements which extend the economic useful life of assets are capitalized. On partial disposal of an asset, the cost less the proceeds of sale is charged to accumulated depreciation. When a complete as-

set is retired, a gain or loss is recognized in the statement of income.

Costs associated with modifications to property, plant and equipment as a result of environmental concerns are capitalized as part of the cost of plant in service and are depreciated over the remaining useful life of the related asset.

Maintenance and repair costs are expensed as incurred.

The full cost method of accounting for gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of gas reserves are capitalized. Capitalized costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, general and administrative costs and drilling of productive and non-productive wells. Interest is capitalized on unproved properties and major development projects, provided the related costs are not being depleted or depreciated. Proceeds from minor property sales are reflected as a reduction of the total capitalized costs; gains or losses on significant property sales are recognized in the statement of income.

Depreciation is calculated on a straight-line basis over the estimated service life of the utility asset. Depletion of gas and coal properties and depreciation of production equipment and facilities are calculated using the unit of production method based on estimated proven reserves.

(d) Capitalization of interest

Interest associated with major capital and development projects is capitalized during the construction period at the Corporation's weighted average interest rate of long-term borrowings in the current year.

(e) Inventories

Stores inventories consisting of maintenance material, supplies and plant repair parts are recorded at average cost. Coal, fuel oil and gas in storage are recorded at cost on a first-in, first-out basis.

(f) Foreign currency translation

Transactions and balances denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year end, the recorded amounts of monetary assets and liabilities are adjusted using the exchange rate at that date. Any resulting exchange gains and losses are included in the statement of income in the current period except for unrealized exchange gains and losses on long-term monetary items which are deferred and amortized on a straight-line basis over the remaining life of the asset or liability.

(g) Amortization of discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the term of the respective debt issue. Gains or losses on partial redemption are amortized in the same manner.

(h) Revenue recognition

Revenue is recognized when natural gas and electrical services are delivered to customers. The estimate of deliveries for which billings have not been made is included in unbilled revenue.

(i) Pension plans

The Corporation provides for pension plans for substantially all employees. One of the plans is a money purchase plan and the amount to be paid is determined by the Superannuation (Supplementary Provisions) Act. The other plan is a defined benefit plan and the contributions are based on actuarial valuations.

The cost of pension benefits in the defined benefit plan is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects best estimates of the expected investment yields, salary adjustments, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in

assumptions are amortized over the estimated average remaining service lives of the employees.

(j) Customer contributions

Contributions relating to new service connections, when revenues generated from such services are expected to exceed the costs of such services over a period of time, are credited to deferred income and amortized over that period.

(k) Contributions in aid of construction

Contributions in aid of construction consist of funds received relating to new service connections where it is estimated that revenues will never exceed the cost of providing service. These contributions are included in Equity.

Notes to consolidated financial statements (continued)

2. Property, plant and equipment

(in millions)

	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Net Book Value</u>	
			<u>1987</u>	<u>1986</u>
Electrical Utility				
Generation Plant				
Thermal.....	\$ 727	\$228	\$ 499	\$ 544
Hydro.....	742	79	663	669
Other.....	24	9	15	16
Transmission.....	288	97	191	189
Distribution.....	633	177	456	412
Other.....	127	45	82	57
	<u>2 541</u>	<u>635</u>	<u>1 906</u>	<u>1 887</u>
Gas Utility				
Production.....	157	54	103	107
Gathering, treatment and compression facilities.....	71	39	32	32
Transmission and storage	189	66	123	110
Distribution.....	364	75	289	264
Other.....	36	14	22	22
	<u>817</u>	<u>248</u>	<u>569</u>	<u>535</u>
	<u>\$3 358</u>	<u>\$883</u>	<u>\$2 475</u>	<u>\$2 422</u>
Composite depreciation and depletion rates			<u>1987</u>	<u>1986</u>
Electrical Utility.....			3.19%	3.28%
Gas Utility.....			2.66%	3.70%
Interest capitalized				
Amount included in property, plant and equipment			<u>\$ 253</u>	<u>\$ 249</u>

3. Advances from the Province of Saskatchewan

(in millions)

	<u>Debt recorded</u>	<u>Face amount in foreign currency</u>	<u>Maturities (in Canadian Dollars)</u>					
			<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993 and Beyond</u>
Canadian Dollar Issues with interest rates of 5.50 to 16.75, weighted interest rate of 11.63%	\$ 990	\$ —	\$31	\$ 60	\$15	\$ 2	\$ —	\$ 882
Canadian Dollar Issues callable upon six-months notice with interest rates of 6.40 to 14.06, weighted interest rate of 10.12%....	573	—	25	29	33	29	28	429
U.S. Dollar Issues with interest rates of 4.875 to 16.375, weighted interest rate of 12.65%	<u>696</u>	<u>536</u>	<u>—</u>	<u>15</u>	<u>4</u>	<u>195</u>	<u>190</u>	<u>292</u>
	<u>\$2 259</u>	<u>\$536</u>	<u>\$56</u>	<u>\$104</u>	<u>\$52</u>	<u>\$226</u>	<u>\$218</u>	<u>\$1 603</u>

Certain advances from the Province require the establishment of sinking funds which, upon maturity of the respective advances, are applied to the principal amounts to be repaid. The equity in sinking funds amounted to \$300 at December 31,

1987 (\$272 at December 31, 1986). Sinking fund installments payable for the next five years are as follows:

1988 — \$13; 1989 — \$12; 1990 — \$12; 1991 — \$11; 1992 — \$10

The current portion of long-term debt consists of:

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Advances from the Province of Saskatchewan, net of sinking fund installments and applications.....	\$ 28	\$33	\$ 26	\$29	\$ 2	\$ 4
Saskatchewan Power Corporation Savings Bonds (Note 4)	112	61	90	46	22	15
Other	4	2	4	2	—	—
	<u>\$144</u>	<u>\$96</u>	<u>\$120</u>	<u>\$77</u>	<u>\$24</u>	<u>\$19</u>

In 1986, an Advance from the Province of Saskatchewan was received amounting to \$89.3 million and is due December 30, 2004. During 1986, the Corporation renegotiated the terms of a promissory note receivable so that the principal, interest rate and maturity are identical to that of the Advance. The Corporation completed a "legal defeasance" of the Advance by placing the note re-

ceivable into an irrevocable trust to be used solely for satisfying the principal and interest payments on the Advance. The Province of Saskatchewan has accepted the promissory note as full and final satisfaction of the Advance. Accordingly, neither the Advance nor the note receivable is reflected in the accompanying financial statements.

4. Saskatchewan Power Corporation Savings Bonds

Saskatchewan Power Corporation Savings Bonds issued and outstanding are as follows (in millions):

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount outstanding</u>	
				<u>1987</u>	<u>1986</u>
I	July 6, 1984	July 6, 1987	11.50%	\$ —	\$ 54
II	July 5, 1985	July 6, 1988	9.50%	81	84
III	July 4, 1986	July 6, 1989	8.75%	76	85
IV	July 6, 1987	July 6, 1990	8.50%	121	—
				<u>\$278</u>	<u>\$223</u>

The interest rates can be increased at the discretion of the Minister of Finance of the Province of Saskatchewan. The Bonds are subject to early redemption semi-annually until maturity at the op-

tion of the bondholder. Bonds redeemed January 6, 1988 of \$33 million (\$7 million January 6, 1987) are classified as long-term debt due within one year.

Notes to consolidated financial statements (continued)

5. Finance charges

(in millions)

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Gross interest expense	\$288	\$289	\$245	\$248	\$43	\$41
Less amount capitalized.....	4	10	3	8	1	2
	<u>284</u>	<u>279</u>	<u>242</u>	<u>240</u>	<u>42</u>	<u>39</u>
Amortization of:						
Foreign exchange	3	13	2	11	1	2
Debt discount and issue expense	4	3	3	3	1	—
	<u>7</u>	<u>16</u>	<u>5</u>	<u>14</u>	<u>2</u>	<u>2</u>
	<u>291</u>	<u>295</u>	<u>247</u>	<u>254</u>	<u>44</u>	<u>41</u>
Less:						
Sinking fund earnings.....	33	35	26	27	7	8
Interest income.....	7	15	5	13	2	2
	<u>40</u>	<u>50</u>	<u>31</u>	<u>40</u>	<u>9</u>	<u>10</u>
Finance charges, net	<u>\$251</u>	<u>\$245</u>	<u>\$216</u>	<u>\$214</u>	<u>\$35</u>	<u>\$31</u>
Interest rate used in capitalization	<u>9.04%</u>	<u>9.70%</u>				

6. Cash from operations

(in millions)

The components of cash from operations are as follows:

	<u>Consolidated</u>		<u>Electrical Utility</u>		<u>Gas Utility</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
Income from operations before						
finance charges	\$287	\$235	\$236	\$195	\$ 51	\$40
Interest income.....	7	15	5	13	2	2
Charges to operations not						
requiring an outlay of cash:						
Depreciation and depletion	101	95	79	70	22	25
Other	(2)	2	—	(2)	(2)	4
	<u>393</u>	<u>347</u>	<u>320</u>	<u>276</u>	<u>73</u>	<u>71</u>
Net change in non-cash working capital:						
Accounts receivable and						
unbilled revenue.....	5	15	3	—	2	15
Notes receivable.....	—	89	—	89	—	—
Inventories.....	(2)	(4)	1	—	(3)	(4)
Accounts payable and						
accrued liabilities	(1)	(26)	(33)	(17)	32	(9)
	<u>2</u>	<u>74</u>	<u>(29)</u>	<u>72</u>	<u>31</u>	<u>2</u>
Cash from operations	<u>\$395</u>	<u>\$421</u>	<u>\$291</u>	<u>\$348</u>	<u>\$104</u>	<u>\$73</u>

7. Commitments and contingencies

- (a) At December 31, 1987, the Corporation was committed in the amount of approximately \$498 million for construction materials, equipment, forward exchange and other financial contracts, and on contracts and services not completed at that time. At 1987 prices, the Corporation had forward commitments extending up to 40 years for natural gas amounting to \$1 902 million for future maximum deliveries and \$1 879 million for coal contracted for future minimum deliveries.
- (b) In 1979, the Corporation commenced an action in the Saskatchewan Court of Queen's Bench for the recovery of \$59 million paid under protest pursuant to a contract entered into in 1969 with TransCanada PipeLines Limited. The trial was held in 1985. The trial Judge dismissed the Corporation's claim and the decision was appealed to the Saskatchewan Court of Appeal and heard in September, 1987. Judgment of the Court of Appeal has not yet been received.
- (c) In 1983, the Cumberland House Local Community Authority #3 and various local groups and residents commenced legal action against the Corporation and the Province of Saskatchewan claiming \$200 million as compensation for damages allegedly suffered due to the construction and operation of the Squaw Rapids Hydroelectric Station. A mediator has been appointed and until the mediation process is concluded, there will be no activity on the court action. A reasonable estimate of the amount of the settlement, if any, cannot be determined at this time.
- (d) In 1982, the Corporation sold a dragline for \$45 million and the purchaser of the dragline financed the transaction by issuing promissory notes due May 18, 2003. The notes were endorsed by the Corporation and the Corporation's contingent liability as endorser is guaranteed by the Province of Saskatchewan. The Corporation holds a chattel mortgage on the dragline as security against its contingent liability.

- (e) In 1984, the Corporation sold its Poplar River Mine, including certain coal reserves, facilities and equipment. As part of the sale, certain leased mining equipment was transferred to the purchaser and the purchaser assumed the lease with the Corporation contingently liable for the payments. As collateral, the purchaser has assigned a security interest in the mine facilities and other assets to the Corporation.

8. Pension plan

In 1987, the Corporation adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants for the accounting for pensions. The effect of this change on net income for the year is not material. The estimated value of the pension fund assets in 1987 amounted to \$335 million, which approximated the estimated actuarial present value of accrued pension benefits.

9. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statements of financial position and are settled in normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

10. Comparative figures

Certain amounts for the prior year have been reclassified to conform with the presentation in 1987. The financial statements for 1986 were examined and reported on by Chartered Accountants other than Clarkson Gordon.

Electrical utility 10-year financial data

Statements of income (In millions)

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Revenue.....	<u>\$562</u>	<u>\$509</u>	<u>\$470</u>	<u>\$431</u>	<u>\$374</u>	<u>\$332</u>	<u>\$286</u>	<u>\$246</u>	<u>\$219</u>	<u>\$190</u>
Costs and expenses										
Fuel, water and purchased electricity.....	97	86	108	89	85	76	60	60	46	39
Operating, maintenance and administration.....	150	158	159	149	140	132	128	107	81	70
Depreciation.....	<u>79</u>	<u>70</u>	<u>58</u>	<u>57</u>	<u>50</u>	<u>46</u>	<u>39</u>	<u>31</u>	<u>28</u>	<u>26</u>
	<u>326</u>	<u>314</u>	<u>325</u>	<u>295</u>	<u>275</u>	<u>254</u>	<u>227</u>	<u>198</u>	<u>155</u>	<u>135</u>
Income before finance charges.....	236	195	145	136	99	78	59	48	64	55
Finance charges.....	<u>216</u>	<u>214</u>	<u>167</u>	<u>165</u>	<u>128</u>	<u>108</u>	<u>82</u>	<u>52</u>	<u>41</u>	<u>39</u>
Income (loss) from operations.....	20	(19)	(22)	(29)	(29)	(30)	(23)	(4)	23	16
Extraordinary gains and losses.....	—	—	—	7	—	—	—	—	—	—
Net income (loss).....	<u>\$ 20</u>	<u>\$(19)</u>	<u>\$(22)</u>	<u>\$(22)</u>	<u>\$(29)</u>	<u>\$(30)</u>	<u>\$(23)</u>	<u>\$ (4)</u>	<u>\$ 23</u>	<u>\$ 16</u>

Financial summary

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Property, plant & equipment (in millions)										
Property, plant & equipment in service.....	\$2 541	\$2 449	\$1 955	\$1 691	\$1 686	\$1 415	\$1 362	\$1 018	\$ 960	\$ 875
Construction in progress.....	<u>78</u>	<u>48</u>	<u>366</u>	<u>408</u>	<u>320</u>	<u>323</u>	<u>182</u>	<u>303</u>	<u>228</u>	<u>198</u>
Property, plant & equipment, gross.....	2 619	2 497	2 321	2 099	2 006	1 738	1 544	1 321	1 188	1 073
Accumulated depreciation.....	<u>(635)</u>	<u>(562)</u>	<u>(505)</u>	<u>(456)</u>	<u>(419)</u>	<u>(384)</u>	<u>(347)</u>	<u>(312)</u>	<u>(285)</u>	<u>(262)</u>
Property, plant & equipment, net.....	<u>\$1 984</u>	<u>\$1 935</u>	<u>\$1 816</u>	<u>\$1 643</u>	<u>\$1 587</u>	<u>\$1 354</u>	<u>\$1 197</u>	<u>\$1 009</u>	<u>\$ 903</u>	<u>\$ 811</u>
Growth over prior year (%).....	2.53	6.55	10.53	3.53	17.21	13.12	18.63	11.74	11.34	12.95
Capital expenditures (\$)	128	189	231	232	294	231	226	137	120	120
Sources & uses of cash (in millions)										
Cash from operations.....	\$ 291	\$ 348	\$ 230	\$ 82	\$ 172	\$ 133	\$ 111	\$ 55	\$ 104	\$ 84
Debt servicing.....	<u>(325)</u>	<u>(432)</u>	<u>(246)</u>	<u>(238)</u>	<u>(212)</u>	<u>(164)</u>	<u>(168)</u>	<u>(90)</u>	<u>(97)</u>	<u>(83)</u>
	(34)	(84)	(16)	(156)	(40)	(31)	(57)	(35)	7	1
Capital expenditures, net of interest capitalized.....	(137)	(183)	(188)	(197)	(259)	(207)	(208)	(118)	(121)	(123)
Financing.....	<u>172</u>	<u>267</u>	<u>258</u>	<u>252</u>	<u>293</u>	<u>387</u>	<u>243</u>	<u>58</u>	<u>101</u>	<u>134</u>
Increase (decrease) in cash.....	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ (101)</u>	<u>\$ (6)</u>	<u>\$ 149</u>	<u>\$ (22)</u>	<u>\$ (95)</u>	<u>\$ (13)</u>	<u>\$ 12</u>
Finance charges as a per cent of revenue.....	38.43	42.04	35.53	38.28	34.22	32.53	28.67	21.14	18.72	20.53

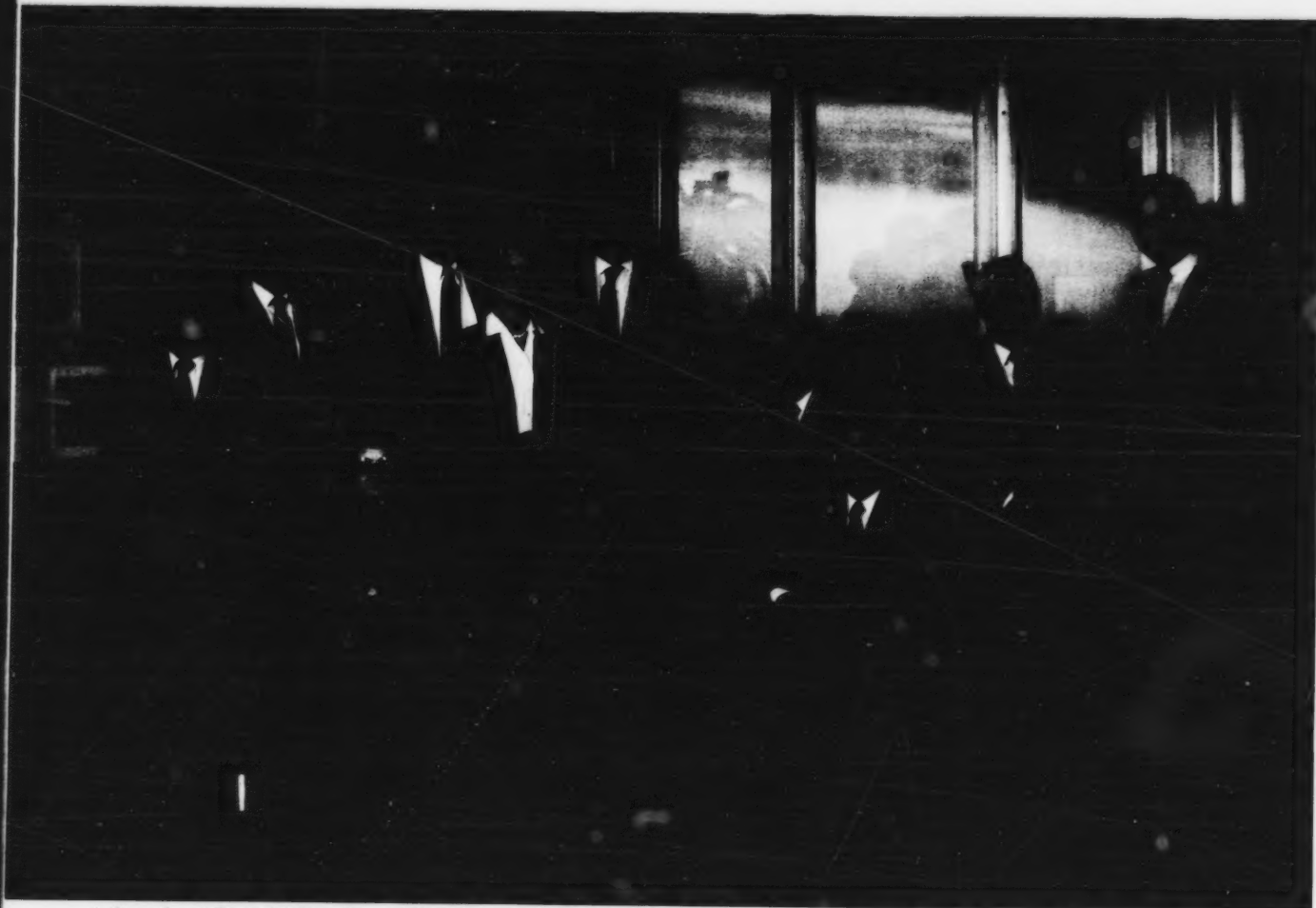
Natural gas utility 10-year financial data

Statements of income (in millions)

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Revenue	<u>\$305</u>	<u>\$344</u>	<u>\$382</u>	<u>\$372</u>	<u>\$335</u>	<u>\$323</u>	<u>\$245</u>	<u>\$205</u>	<u>\$186</u>	<u>\$159</u>
Costs and expenses										
Gas	164	209	240	236	236	210	145	114	106	100
Operating, maintenance and administration	68	70	69	64	59	60	51	40	36	31
Depreciation	22	25	20	14	12	12	12	11	10	9
	<u>254</u>	<u>304</u>	<u>329</u>	<u>314</u>	<u>307</u>	<u>282</u>	<u>208</u>	<u>165</u>	<u>152</u>	<u>140</u>
Income before finance charges	51	40	53	58	28	41	37	40	34	19
Finance charges	35	31	30	26	19	14	14	15	15	14
Net income	<u>\$ 16</u>	<u>\$ 9</u>	<u>\$ 23</u>	<u>\$ 32</u>	<u>\$ 9</u>	<u>\$ 27</u>	<u>\$ 23</u>	<u>\$ 25</u>	<u>\$ 19</u>	<u>\$ 5</u>

Financial summary

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Property, plant & equipment (in millions)										
Property, plant & equipment in service	\$817	\$765	\$684	\$611	\$532	\$469	\$428	\$412	\$390	\$372
Construction in progress	9	8	7	9	9	6	8	3	2	—
Property, plant & equipment, gross	826	773	691	620	541	475	436	415	392	372
Accumulated depreciation	(248)	(230)	(207)	(188)	(175)	(160)	(148)	(136)	(126)	(116)
Property, plant & equipment, net	<u>\$578</u>	<u>\$543</u>	<u>\$484</u>	<u>\$432</u>	<u>\$366</u>	<u>\$315</u>	<u>\$288</u>	<u>\$279</u>	<u>\$266</u>	<u>\$256</u>
Growth over prior year (%)	6.45	12.19	12.04	18.03	16.19	9.38	3.23	4.89	3.91	4.07
Capital expenditures (\$)	57	84	72	75	54	41	22	23	21	19
Sources & uses of cash (in millions)										
Cash from operations	\$104	\$ 73	\$ 73	\$ 72	\$ 28	\$ 47	\$ 30	\$ 48	\$ 35	\$ 24
Debt servicing	(62)	(71)	(41)	(41)	(37)	(25)	(36)	(33)	(31)	(23)
	42	2	32	31	(9)	22	(6)	15	4	1
Capital expenditures, net of interest capitalized	(58)	(97)	(71)	(74)	(58)	(40)	(22)	(22)	(3)	—
Financing	56	76	69	29	72	27	23	—	—	1
Increase (decrease) in cash	<u>\$ 40</u>	<u>\$ (19)</u>	<u>\$ 30</u>	<u>\$ (14)</u>	<u>\$ 5</u>	<u>\$ 9</u>	<u>\$ (5)</u>	<u>\$ (7)</u>	<u>\$ 1</u>	<u>\$ 2</u>
Finance charges as a per cent of revenue	11.47	9.01	7.85	6.99	5.67	4.33	5.71	7.32	8.06	8.81



(photo l - r) Donald Stankov, Alfred Bechard, Patricia Olynik, Ross Giles, Laura Smith, Glenn Thorpe, Monty Manning, Barry Bridges, Edward Laurence, Wally Blaisdell

- | | | |
|------------|--|--|
| | Hon. Eric A. Berntson
Minister Responsible and Vice-Chairman
Carievale | *† Edward A. Laurence
President, Laurence Investments Ltd.
Yorkton |
| * | Donald Stankov, CA
Chairman
President, Thyssen Mining Construction of Canada Ltd.
Regina | # Monty N. Manning
President, Manning Mercury Sales Ltd.
North Battleford |
| † | Alfred E. Bechard
Farmer
Sedley | # Patricia Y. Olynik
Homemaker
Moose Jaw |
| *† | Wally Blaisdell, APR
President, Markets Plus Inc.
Regina | # Laura Smith
Farmer
Pathlow |
| * | Barry D. Bridges, LL.B.
Partner, McLellan, Cundall and Bridges
law firm
Estevan | *† Glenn R. Thorpe
President, Tower Line Contractors Ltd.
Yorkton |
| *†# | B. Ross Giles, CA
General Manager, Degelman Industries Ltd.
Regina | * Executive Committee
† Finance Committee
Audit Committee |

F.A. (Dan) Meyers of Saskatoon resigned from the Board of Directors in April 1987.

Corporate executive

(at December 31, 1987)

George D. Hill, QC

President and Chief Executive Officer

Oscar Hanson, P.Eng.

Executive Vice-President (with
responsibility for the Gas System)

Fred Bates

Vice-President, Human Resources

Ron Bruce, CGA

Manager, Internal Audit

Gerry Labas

acting Vice-President,
Corporate Services and Communication

Harvey Jim, CA, P.Eng.

Vice-President, Finance

Bob Lawrence, P.Eng.

Vice-President, Electric System

Virgil Nelson, P.Eng.

Vice-President, Corporate Planning
and Development

Lawrie Portigal, LL.B.

Vice-President, Law

G. Keith Rever, P.Eng.

Vice-President, Customer Services

Barry Steuart, P.Eng.

retired as Vice-President,
Gas System July 31, 1987.